

Southeastern Europe Commercial Quarterly

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Albania's Energy Sector —An Electrifying Future

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To Our Readers

With the September 2004 issue, CEEbic's long-running newsletter, *Central and Eastern Europe Commercial Update*, ceased publication. It has been replaced by this new quarterly publication that you now hold in your hands, the *Southeastern Europe Commercial Quarterly*. This change partially reflects a change in focus that came with the accession of some countries in the CEEbic portfolio to the European Union. Readers of our new quarterly will continue to find here the same mix of in-depth reports on business developments in our region and listings of business opportunities for U.S. companies. As always, we invite your comments and welcome you to visit our Web site for more information, at www.mac.doc.gov/ceebic.

Since 2001, Albania's economy has been growing at nearly 6 percent annually, and future growth figures are projected to follow this trend. Albania's growing economy is unable to meet current market demands for energy, and the country experiences frequent power shortages. To continue this upsurge of economic growth, Albania is restructuring many aspects of its energy sector and is developing new projects to increase its energy supply. Albania's power generation and transmission equipment is in general need of upgrade and rehabilitation. The Albanian government is also seeking to diversify the country's sources of energy; currently 95 percent of Albania's electricity comes from hydropower generation. In many rural areas, there continues to be a reliance on wood fuel.

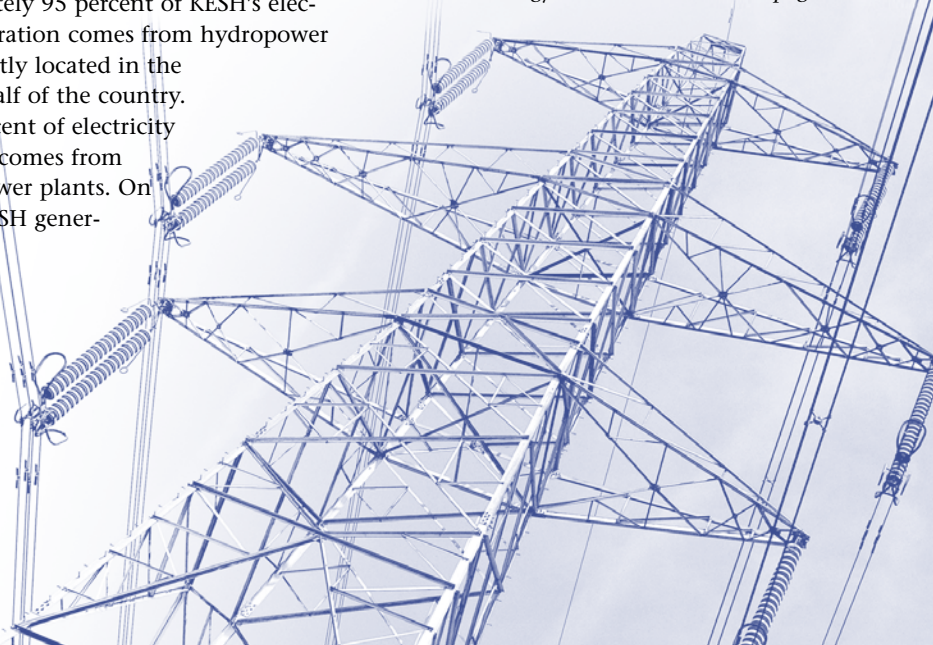
Electricity Generation

The upcoming restructuring and future privatization of Albania's state-owned electricity monopoly, Albania Power Corporation (KESH), may offer export and investment opportunities for U.S. companies. KESH is responsible for generation, transmission, and distribution of electric power. Approximately 95 percent of KESH's electricity generation comes from hydropower plants, mostly located in the northern half of the country. Only 5 percent of electricity generation comes from thermal power plants. On average, KESH generates 4,160 GWh of electricity annually. Nearly one-third of electricity production is lost because of poor

transmission facilities, combined with out-of-date production equipment. Albania regularly experiences power shortages and must import electricity to meet demand. Additional energy production is crucial, as current production only covers one-half to two-thirds of domestic demand. According to the Albanian government's National Strategy for Energy, by 2015 the demand for energy from industry will reach 539 ktoe (thousand ton oil equivalent), 629 ktoe from residential, 572 ktoe from services, 16.4 ktoe from construction, and 1,001 ktoe from transportation.

The Albanian government, with the assistance of the international community, has developed a strategy for the electricity sector, which includes restructuring the electricity industry and its regulatory framework, liberalizing the market and unbundling the electricity company, participating in the regional energy market, and planning for privatization. As a precursor to privatization, KESH will be spun off into at least three companies for generation, distribution, and transmission. In July 2004, KESH established a

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Transmission System Operator, a key step to moving forward on the separation of generation, distribution, and transmission activities. The Transmission System Operator is critical for monitoring and controlling the main hydro and thermal generation resources and for ensuring the optimal and safe functioning of the national high-voltage transmission network. The government also plans to increase transmission efficiency and reduce losses by developing a high-voltage grid of 400 kV, 220 kV, and 110 kV lines. That project will also involve installing energy meters and expanding and strengthening the network, with the installation of 6,800 transformers in rural zones. Total investments needed for transmission improvements for 2002–2005 are estimated at \$60.93 million, and \$290.14 million in investments will be needed for 2006–2015.

Thermal Power

The Vlorë Energy Park is Albania's largest and most complex economic development project. The project is supported by several international financial institutions, including the World Bank, European Investment Bank, and European Bank for Reconstruction and Development. The park covers 1,625 hectares and consists of (1) a 400-plus megawatt thermal power plant to be built in phases, (2) storage facilities for hydrocarbons such as liquefied petroleum gas and liquefied natural gas, (3) a refinery and oil separation plant, and (4) industrial processing and manufacturing facilities. Selection on the \$120 million, 125 MW oil-fired thermal power plant is expected to be completed by the end of 2004, with construction to begin thereafter. The construction will be done in two phases. The 125 MW Phase I of the Vlorë thermal energy plant will begin producing electricity in 2006 and will have an estimated cost of approximately \$137 million. The second phase, which will expand the plant to 300 MW capacity, will have an overall estimated cost of \$217 million and a construction period of 24 months once the project is approved. Significant contracting and subcontracting opportunities for this project are anticipated for U.S. firms.

A power company has submitted another proposal to the Albanian government for the construction of a 1,200 MW gas-fired thermal power plant that is designed to connect to the Albanian power system and allow for the export of electricity to Italy. The estimated cost would be around \$1.2 billion.

Oil Sector

Albania relies on the importation of oil to meet its domestic demand. Albania extracts oil from 12 oil fields with 3,123 operating oil wells. Albania has 165 million barrels of proven oil reserves and has offshore oil reserves. The offshore oil exploration activities show that potential oil reserves are estimated to be 50 million cubic meters, and may be as high as 200 million cubic meters. The most probable new areas for oil exploration are in the Shqipëri region, where the oil concentration capacity in drilled wells is being evaluated; the Palokastrë and Vlorë region, where the results from the drilling of two wells are being analyzed; and the South Tirana region, where the drilling of oil wells is under way and results may be available by the end of 2004.

Three companies dominate the oil sector in Albania: Albpetrol, which handles oil extraction; Servcom, which is responsible for services; and ARMO (Albanian Oil Refining and Marketing), which manages refining and marketing. Oil extraction centers are located in Berat and Fier. The two major refineries are at Ballsh and Fier. The refinery at Ballsh has a capacity of 1 million tons; both refineries tend to operate at only 30 percent of capacity. Several foreign companies have been exploring and producing oil in Albania since 1992, including Occidental Petroleum, OMV, and Lundin Petroleum.

The privatization of Servcom is well under way, with the Albanian government reviewing offers from strategic investors

interested in purchasing shares of 51 percent to 80 percent of the company. The Albanian government recently announced they are accepting expressions of interests from strategic investors for a minimum of 51 percent of ARMO's shares. Once the expressions of interests are received in early December, the Albanian government will then invite interested investors to submit their offers. The oil extraction company, Albpetrol, is scheduled to be privatized by the end of 2005.

AMBO (Albanian-Macedonian-Bulgarian Oil), a U.S. consortium, has been promoting a pipeline that would follow the route of EU transportation Corridor VIII. The pipeline route would link the port of Bourgas, which



is on the Black Sea coast of Bulgaria, with the port of Vlorë, which is on the Adriatic coast of Albania, to transport oil from the Caspian region to Western Europe and the United States. If this project is adopted, there may be export and subcontracting opportunities for U.S. companies. The pipeline will be 576 miles long and will transport more than 40 million tons of oil per year.

Renewable Sources of Energy

Wind and solar energy exploitation is an area in which government, international, and private investments are anticipated. Currently, Albania does not have operational wind energy power plants. To explore wind generation, the government is seeking investors to install 20 new windmills, with a capacity of 400 GWh per year, along the Adriatic coastline. Because of its geographic location, Albania has hot, dry summers, so

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there is potential for the development of solar energy. As part of its national energy strategy, the Ministry of Industry and Energy is seeking investors to install enough solar panels to provide 62.9 ktoe energy by 2015. The total investment cost is estimated at \$79 million. The United Nations Development Program, through its Global Environment Facility, has undertaken several projects to encourage the use of solar energy and educate the public on energy efficiency.

Additional Resources for U.S. Companies

Given the significant U.S. export and investment opportunities in all areas of Albania's energy sector and the Albanian government's desire to involve U.S. companies in this strategic sector, CEEBIC has created a new section on its Web site devoted to Albania's energy sector: <http://www.mac.doc.gov/ceebic/countryr/albania/Energy1.htm>. Please visit the Web site for more detailed reports on the subcategories of Albania's energy sector as well as on tenders, projects, and trade and investment leads in the energy sector.

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available through CEEBIC at (202) 482-2645
or via email at ceebic@ita.doc.gov

Albania-EU Energy Efficiency Centre: print
publication available through www.europa.int

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Regional: Simplified Pre-accession Funds

The European Commission has decided to simplify the current financial system for allocating assistance. The simplified system will apply to Croatia, Turkey, and potential candidate countries from the Western Balkans. Instead of the existing extensive collection of geographical and thematic instruments, such as PHARE, ISPA, SAPARD, and CARDS, only six instruments will be required under the new framework, including the following four which are new: European Neighborhood and Partnership, Development Cooperation, Economic Cooperation, and an instrument for stability. The two remaining instruments are Humanitarian Aid and Macro-Financial Assistance. (Source: *EU Enlargement Weekly*)



Croatia: Preaccession Strategy Announced

As part of the European Union (EU) enlargement agenda, the European Commission has offered some recommendations that will help Croatia move toward EU membership. The European Council plans to begin negotiations with Croatia in early 2005. A formal review of Croatia's progress toward membership will take place next year. In autumn 2005, the commission will start issuing regular reports on the country's progress. The commission has also recommended that Croatia receive €105 million in preaccession funds (PHARE, ISPA, and SAPARD) in 2005 and €140 million in 2006. Starting in 2007, Croatia will receive funds from the EU's new preaccession instrument. The amounts to be allocated are currently under discussion. (Source: *EU Enlargement Weekly*)



Macedonia: European Union Questionnaire Received

On October 1, European Commission President Romano Prodi delivered the commission's questionnaire to authorities in Macedonia. The questionnaire contains approximately 4,000 questions, examining both political and economic criteria in addition to all areas of EU legislation. Answers to the questionnaire will contribute to the commission's analysis on Macedonia's overall readiness for EU membership. Prime Minister Hari Kostov stated that the work would be complete by January. The questionnaire is a positive sign of the progress Macedonia has made toward EU integration. (Source: *European Union*)

